

CALAVERAS COUNTY ASSESSMENT PRACTICES SURVEY

AUGUST 2001

CALIFORNIA STATE BOARD OF EQUALIZATION

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August 8, 2001

TO COUNTY ASSESSORS:

No. 2001/051

CALAVERAS COUNTY ASSESSMENT PRACTICES SURVEY

A copy of the Calaveras County Assessment Practices Survey Report is enclosed for your information. The State Board of Equalization (BOE) completed this survey in fulfillment of the provisions of sections 15640-15646 of the Government Code. These code sections provide that BOE shall make surveys in each county and city and county to determine that the practices and procedures used by the county assessor in the valuation of properties are in conformity with all provisions of law.

The Honorable Grant W. Metzger, Jr., Calaveras County Assessor, was provided a draft of this report and given an opportunity to file a written response to the findings and recommendations contained therein. The report and the county assessor's response constitute the final survey report. This report, pursuant to Government Code section 15646, is distributed to the Governor, the Attorney General, and the State Legislature; and to the Calaveras County Board of Supervisors, Grand Jury, and County Board of Equalization.

The BOE's County Property Tax Division performed the fieldwork for this survey of the Calaveras County Assessor's Office during August and September of 2000. This report does not reflect changes implemented by the assessor after the fieldwork was completed.

The survey process inherently requires the interruption of normal office work routines. We thank Mr. Metzger and his staff for their cooperation and patience during this assessment practices survey.

These survey reports give the government officials in California charged with property tax administration the opportunity to exchange ideas for the mutual benefit of all participants and stakeholders. We encourage you to share your questions, comments, and/or suggestions for improvement with us.

Sincerely,

Richard C. Johnson
Deputy Director
Property Taxes Department

Enclosure
RCJ:jm

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INTRODUCTION

Although county government has the primary responsibility for local property tax assessment, the State has both a public policy interest and a financial interest in promoting fair and equitable assessments throughout California. The public policy interest arises from the enormous impact of property taxes on taxpayers and the inherently subjective nature of the assessment process. The financial interest comes from the fact that half or more of all property tax revenues are used to fund public schools and the State is required to backfill any shortfalls from that property tax funding.

The assessment practices survey program is one of the State's major efforts to address these interests and to promote uniformity, fairness, equity, and integrity in the property tax assessment process. Under this program, the State Board of Equalization (BOE) periodically reviews (surveys) every county assessor's office. This report reflects the BOE's findings in its current survey of the Calaveras County Assessor's Office.

Readers of previous assessment practices survey reports will note several distinct changes in the format of the report. Among other things, the previous reports commonly contained multi-part recommendations and formal suggestions. Each recommended change is now listed as a separate recommendation. Items that would have been formal suggestions under the previous format are now either recommendations or are stated informally within the text of the report. Both of these changes increase the number of recommendations in the survey reports.

The assessor is required to file with the board of supervisors a response that indicates the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations contained in this report. Copies of the response are to be sent to the Governor, the Attorney General, the BOE, the Senate and Assembly, the Calaveras County Grand Jury, and the local board of equalization. That response is to be filed within one year of the date the report is issued and annually thereafter until all issues are resolved. The Honorable Grant W. Metzger, Jr., Calaveras County Assessor, elected to file his initial response prior to the publication of our survey; it is included in this report following the Appendices.

While typical management audit reports emphasize problem areas, they say little about operations that are performed correctly. Assessment practices survey reports also tend to emphasize problem areas, but they also contain information required by law (see *Scope of Assessment Practices Surveys*) and information that may be useful to other assessors. The latter information is provided in the hope that the report will promote uniform, effective, and efficient assessment practices throughout California.

SCOPE OF ASSESSMENT PRACTICES SURVEYS

Government Code sections 15640 and 15642 define the scope of an assessment practices survey. As directed by those statutes, our survey addresses the adequacy of the procedures and practices employed by the assessor in the valuation of property, the volume of assessing work as measured by property type, and the performance of other duties enjoined upon the assessor.

In addition, Revenue and Taxation Code¹ section 75.60 requires the BOE to certify that the county assessment roll meets a minimum assessment level. This certification may be accomplished either by conducting an assessment sample or by determining, through objective standards—defined by regulation—that there are no significant assessment problems. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix B.

Our survey of the Calaveras County Assessor's Office included reviews of the assessor's records, interviews with the assessor and his staff, and contact with other public agencies in Calaveras County that provided information relevant to its property tax assessment program.

This survey report offers recommendations to help the assessor resolve the problems we have identified. The recommendations contained in this report are based on the results of our research into statutory violations, under- or overassessments, or unacceptable appraisal practices that may occur in specific areas.

An assessment practices survey is not an audit of the assessor's entire operation. We do not examine internal fiscal controls, nor the internal management of an assessor's office outside those areas related to assessment.

¹ Unless otherwise indicated, all statutory references are to the California Revenue and Taxation Code.

EXECUTIVE SUMMARY

This report presents several recommendations for improvement, but it also attempts to note those program elements that are particularly effective. It also highlights areas of improvement since our last assessment practices survey and acknowledges the implementation of previous recommendations.

- In our 1994 Assessment Practices Survey of Calaveras County, we made 11 recommendations addressing problems found in the assessor's policies and procedures. The assessor fully implemented five of the changes we recommended, partially implemented three, and did not implement three. The recommendations that were not implemented, or only implemented in part, are repeated in this report.
- We found no problems in the assessor's administration of assessment appeals, low value property exemptions, the taxation of racehorses, or the assessment of disaster relief properties, computers, and service station properties.
- The assessor has greatly increased office efficiency over the past few years with a transition from one personal computer in the appraisal section to a fully supported local area network, a countywide e-mail system, and a new computer system (Megabyte). We recommend the assessor develop a formal disaster recovery plan.
- We found several weaknesses in the assessor's assessment roll change program. We recommend the assessor apply interest when applicable; and enter the correct citation, including the required notations, on the assessment roll.
- In the assessment of changes in ownership, documentation could be improved in appraisal records. We also recommend a study on the market value of properties with improvement bonds, and quarterly reporting of section 69.1 exclusions to the BOE.
- Although the assessor has an effective program for assessing properties with new construction, the assessor does not obtain building permits from the county's environmental health department or record all permit information on the appraisal records.
- We recommend that the assessor timely process all supplemental assessments.
- We found a substantial number of properties receiving decline-in-value assessments that have not been reviewed in a number of years. We also found that in some cases, only components of the appraisal unit are reviewed for decline-in-value. In addition, documentation of market value estimates requires improvement.
- We recommend that the assessor develop the income to be capitalized in the manner required by Rule 25.

- The assessor should improve his discovery methods for taxable government-owned property and revise his method of determining the restricted value.
- We have several areas of concern regarding the assessment of California Land Conservation Act (CLCA) properties: valuation of homesites, classification of water wells, questionnaires, factored base year values for trees and vines, automation of the living improvement valuation program, valuation of compatible uses, the risk component of the capitalization rate, and assessment of mineral rights.
- In our previous survey report, we included a multi-part recommendation regarding the discovery of water company properties and documentation of water company property records. We repeat this advice with two separate recommendations.
- While we found the assessor to be conscientious in his assessment of Timberland Production Zone (TPZ) lands, we believe that the assessor could improve this program by sending questionnaires to property owners requesting compatible use information, and ensuring that the compatible use properties are indexed appropriately.
- For the assessment of tenant improvements, we recommend that the assessor improve coordination between the real property and business property staff.
- In our preceding survey report, we recommended that the assessor revise and make corrections to the timeshare assessment program. With one exception, the assessor has implemented the various components of that recommendation and has an effective program for assessing timeshare properties. The exception is that a base year value must be established for each real property interest in a timeshare estate.
- We recommend that the assessor improve the business property discovery program by employing additional methods of discovery.
- The assessor is using an unapproved property statement.
- The assessor should audit or visit all taxpayers who fail to file business property statements for three or more consecutive years.
- The assessor continues to have problems timely completing mandatory audits and obtaining signed waivers when mandatory audits are not going to be completed on time.
- The assessor should use form BOE-600-B as a resource for discovering leased equipment and cross-reference leased equipment reports submitted by lessors and lessees.
- We recommend the assessor classify and assess apartment personal property separately from land and improvements.
- The assessor should use the required valuation guide for valuing aircraft.

- We recommend that the method used for estimating depreciation in the assessment of vessels be more market-oriented.
- In our previous survey report, we recommended that the assessor revise the assessment program for manufactured homes. Two parts of the recommendation were adopted. The third part, to review manufactured homes for a decline in value, is repeated in this report. Also, when using a value guide for valuing manufactured homes, we recommend that the proper edition of the guide be used.
- Despite the problems noted above, we found that most properties and property types are assessed correctly.
- We found no significant assessment problems, as defined in Property Tax Rule 371. Accordingly, pursuant to section 75.60, Calaveras County continues to be eligible for recovery of costs associated with administering supplemental assessments.

Here is a list of the formal recommendations contained in this report, arrayed in the order that they appear in the text.

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RESULTS OF THE 1994 SURVEY

New Construction

We recommended the assessor enroll all property found by the BOE's sample team to be escaping assessment. We also recommended that the assessor enroll escape assessments for all applicable years allowed under the statute of limitations. The assessor has complied with these recommendations.

Disaster Relief

We recommended the assessor train staff on the proper procedures regarding supplemental assessments for properties damaged by disaster or calamity. The assessor has initiated this training.

Taxable Possessory Interests

We recommended the assessor make needed improvements to the possessory interest assessment program including: assessing the possessory interests of cable television companies, enrolling the possessory interests at the county fairgrounds, following proper appraisal procedures, and providing real property appraisal support for the possessory interest valuation program. The assessor has assessed the cable television possessory interests and has provided appropriate appraisal support. Appraisal procedures have improved overall, but we make one recommendation in this report concerning the income approach for possessory interests.

Manufactured Homes

We recommended the assessor make certain revisions to the program for valuing and assessing manufactured homes. The assessor has implemented all but the review for decline-in-value portion of our multi-part recommendation.

Timeshare Properties

We recommended the assessor revise the timeshare assessments program by reviewing all timeshare assessments, establishing base year values, deriving current market estimates, and making roll corrections where needed. The assessor has implemented all the recommendations except for establishing base year values for timeshare properties.

Water Company Properties

We made a multi-part recommendation that the assessor review all water-source properties that are annually inspected by the county's environmental health unit to ensure correct assessment. This recommendation has not been implemented, and we repeat it in two separate recommendations.

Taxable Government-Owned Property

We recommended that the assessor contact the U.S. Department of Interior for a listing of parcels used as wildlife preserves and subject to in lieu fees. The assessor complied and found no parcels used as wildlife preserves. We also recommended the assessor research, appraise, and enroll correct values for properties owned by government agencies but located outside their boundaries. The assessor has not implemented this recommendation.

Audit Program

We recommended that the assessor bring the mandatory audit program to current status. We also recommended the assessor obtain a signed waiver of the statute of limitations when a mandatory audit will not be completed on time. The assessor has not complied and we repeat both recommendations.

OVERVIEW OF CALAVERAS COUNTY

Calaveras County is in the southern portion of the Mother Lode country, situated in the foothills of the Sierra Nevada Mountains. There are 652,920 acres of land in the county, and the elevation ranges from 300 feet to 8,170 feet above sea level. Calaveras County shares common borders with the counties of Amador to the north, Alpine to the east, Tuolumne to the south, and Stanislaus and San Joaquin to the west. The county seat is San Andreas. There is only one incorporated city, the City of Angels, known locally as Angels Camp. As of January 1998, the population of Calaveras County was 38,350 persons.

The assessor's budget increased about 10 percent from 1995-1996 to 1999-2000. The assessor's staffing level was reduced from 17 to 13.5 general fund positions during the period 1990-1993. Two limited term positions were added in 1995-1996 when the State County Property Tax Administration program was implemented. Staffing levels are currently 13.5 general fund and 2 limited term positions. New and highly qualified persons have been hired, and many progressive changes are being implemented. Cross training in every section is underway.

The following chart displays pertinent information from the 2000-2001 assessment roll.

Property Type	Number of Assessments	Enrolled Values
Residential	26,810	\$2,122,766,601
Miscellaneous (includes manufactured homes)	3,150	28,492,754
Rural	11,162	802,759,199
Commercial/Industrial	<u>1,170</u>	<u>211,845,488</u>
Total Secured Roll	42,292	\$3,165,864,042
Total Unsecured Roll (personal property except manufactured homes)	<u>2,848</u>	<u>67,531,812</u>
Total Roll	<u>45,140</u>	<u>\$3,233,395,854</u>

ADMINISTRATION

This portion of the survey report focuses on administrative policies and the procedures of the assessor's office that affect both the real property and business property assessment programs. We examined training, computer systems, the State-County Property Tax Administration Program, racehorse in-lieu tax, disaster relief, low-value exemptions, and welfare, church, and religious exemptions. We also reviewed how the assessor handles corrections and changes to the completed assessment roll, and how the assessor prepares and presents assessment appeals.

Computer Systems

While computers allow an organization to reduce time-consuming manual functions, an organization dependent on computers is extremely vulnerable to a catastrophic event. When there is heavy reliance on automation, the loss of computer capabilities, for even a short period of time, could have significant impact.

RECOMMENDATION 1: Develop a formal disaster recovery plan for the computer system.

The assessor has no formal plans to recreate his computer system in case of a disaster affecting his office facilities. Such a plan should identify an off-site location for the computer system and define the specific steps and timetable for complete recovery of computer operations, programs, and data after a disaster. This would ensure that the assessor's office could recover quickly from a catastrophic event, should one occur.

We recommend that the assessor develop a disaster recovery plan for his computer system.

State-County Property Tax Administration Program

Section 95.31 established the State-County Property Tax Administration Program (PTAP), which provides state-funded loans to eligible counties for the improvement of property tax administration.

If an eligible county elects to participate, that county and the State Department of Finance enter into a written contract as described in section 95.31. A PTAP loan is considered repaid if the county satisfies the agreed-on performance criteria set forth in the contract. The contract provides that a county must agree to maintain a base funding and staffing level in the assessor's office equal to the funding and staffing levels for the 1994-95 fiscal year. This requirement prevents a county from using PTAP funds to supplant existing funding. In most counties, the contract provides that verification of performance is provided to the State Department of Finance by the county auditor-controller.

The Calaveras County Board of Supervisors passed Resolution #95-379 on November 27, 1995, electing to participate in PTAP during years 1995-96, 1996-97, and 1997-98. The county continues to be eligible for the loan amount of \$109,897 per year and is required to maintain the required base funding and staffing levels for the assessor's office. The Calaveras County Auditor-Controller has annually certified to the State Department of Finance that the county has met the contractual requirements for loan repayment.

Calaveras County used PTAP funds to prepare assessment appeal cases; to reduce backlogs of mandatory audits, nonmandatory audits, new construction assessments, transfer assessments, and decline-in-value monitoring; and to establish a canvassing program. Funds have been used to add an appraiser, a contract auditor, and an assessment clerk, as well as to expand the auditor-appraiser position from half to full time. Other funds were used to purchase computer hardware, software and related training, to obtain aerial photos, and to acquire transportation. All expenditures were designed to increase the productivity of the assessor's office.

Taxation of Racehorses

Article XIII of the California Constitution provides that all property, unless specifically exempted, is taxable. Several categories of animals have been exempted from taxation, as provided in the Revenue and Taxation Code. For example, animals held as business inventory and pets are exempt under sections 129 and 219 and under section 224, respectively. Property Tax Rule 133 provides that the inventory exemption extends to animals used for the feeding, breeding, and management of livestock. However, racehorses domiciled in California are subject to an annual tax in lieu of the ad valorem property tax. The provisions of this tax are contained in sections 5701 through 5790. Property Tax Rules 1045 and 1046 prescribe specific procedures and forms to be used in the administration of the annual racehorse tax.

The county assessor's responsibility relating to the administration of the annual racehorse tax is the distribution of forms and retention of reports. We found that the assessor has performed this duty properly.

Disaster Relief

Section 170 authorizes a county board of supervisors to adopt an ordinance providing property tax relief to an assessee whose property has been damaged or destroyed by a misfortune or calamity. The ordinance may apply to any misfortune or calamity, to a major misfortune or calamity within a region that has been declared to be in a state of disaster by the Governor, or to both. The Calaveras County Board of Supervisors adopted such an ordinance on December 4, 1978. The ordinance was amended on September 17, 1979 and again on November 27, 1995.

In Calaveras County, the assessor processed 45 disaster relief claims in 1997, 4 in 1998, and 13 in 1999. We found no problems with this program.

Low-Value Property Exemption

Section 155.20 permits the county board of supervisors to exempt property from taxation where the tax revenues generated are less than the cost of assessing and collecting such taxes. The board of supervisors shall adopt any such exemption before the lien date for the fiscal year to which the exemption is to apply. At the option of the board of supervisors, the exemption may continue in effect for succeeding fiscal years.

The Calaveras County Board of Supervisors adopted a low-value resolution (#91-75) pursuant to section 155.20 on February 19, 1991 with a value limit of \$2,000. Our review of property eligible for this exemption included real property and personal property as well as low-value possessory interests. Each property reviewed had been valued, enrolled, and exempted properly. Overall, we found no problems with the administration of the low-value property exemption program.

Welfare, Church and Religious Exemptions

Article XIII, section 3(f) of the California Constitution exempts from property taxation buildings, land on which they are situated, and equipment used exclusively for religious worship. Article XIII, section 4(b) of the California Constitution authorizes the exemption of property used exclusively for religious, hospital, or charitable purposes and owned or held in trust by a nonprofit organization operated for those purposes.

Welfare Exemption

The welfare exemption may be claimed for property used exclusively for religious, hospital, scientific, or charitable purposes, owned and operated by community chests, funds, foundations, or corporations organized and operated for religious, hospital, scientific, or charitable purposes. The welfare exemption is co-administered by the BOE and county assessors. Annual filing of the exemption claim is required, along with approval by both the BOE and the county assessor.

We found that the assessor is properly processing welfare exemption claims. Claim forms, with accompanying attachments, are forwarded to the BOE. The assessor is exempting all properties, including parsonages, deemed qualified by the BOE for the welfare exemption.

Church and Religious Exemptions

The county assessor administers the church and religious exemptions. The church exemption may be claimed on property owned, leased, or rented by a religious organization and used exclusively for religious worship. The religious exemption may be claimed on property owned by a religious organization and used exclusively for religious worship or religious worship and religious services including preschool, nursery school, or parochial school activities.

For the 1999-2000 assessment roll, the assessor processed two church exemptions and 55 religious exemptions. We found that claims for the church and religious exemptions were processed properly.

Assessment Roll Changes

The assessor has a duty to complete the local assessment roll and deliver it to the auditor by July 1 of each year. After delivery of the roll to the auditor, the assessor cannot change an assessment unless authorized by statute, the board of supervisors, or the county counsel.

Section 506 Interest

Escape assessments are assessments made after the assessor has certified that the local assessment roll was prepared pursuant to section 601. Upon discovery of property escaping assessment, the assessor must immediately add the escape assessment and any applicable penal assessment to the roll. The assessor must also cite the Revenue and Taxation Code section that mandates the escape assessment. This action notifies the auditor-controller and treasurer-tax collector whether additional interest is required on the unpaid tax.

RECOMMENDATION 2: Notify the auditor-controller to apply the section 506 interest.

The assessor does not notify the auditor-controller to apply the section 506 interest to escaped and arbitrary assessments. Section 506 provides that any assessments made pursuant to section 501 shall be subject to interest. In addition, section 531 provides that escaped assessments resulting from an owner's failure to file a property statement pursuant to section 441 shall be subject to penalty and interest imposed by sections 463 and 506. The auditor-controller applies the section 506 interest. In order to cause this interest to be applied, the assessor must notify the auditor-controller.

We recommend that the assessor notify the auditor-controller to apply the section 506 interest.

Statutory Citation

RECOMMENDATION 3: Cite the proper Revenue and Taxation Code section when processing escape assessments.

We found the assessor does not cite the proper statutory authority when processing escape assessments. Section 531 was cited in all records reviewed, rather than citing the applicable specific section (e.g., sections 531.1, 531.1). Escaped assessments are made for a variety of reasons. The assessor must cite the proper statutory provisions to identify the basis for the escape.

We recommend that the assessor include the proper citation when processing escape assessments.

Notation

RECOMMENDATION 4: Enroll escaped assessments in the manner prescribed by section 533.

We found that the assessment roll does not contain the required notation for any escaped assessments. Section 533 specifies the language required to identify escape assessments on the assessment roll if the escape assessment is entered on a roll which is not the roll for the assessment year in which the property escaped assessment. Both the secured and unsecured assessment rolls must contain the notation required by section 533.

We recommend the assessor comply with statutory provisions by including the required notations on the assessment roll.

Assessment Appeals

In Calaveras County, the board of supervisors sits as the local board of equalization. During the fiscal year 1999-2000, the board received nine applications for reduced assessment. Appeals are tracked on a written log and are heard within the required two-year time frame.

All assessment appeals are prepared and presented by the chief appraiser. We found no problems with the assessor's appeals procedures.

ASSESSMENT OF REAL PROPERTY

The Calaveras County Assessor's real property workload for the 1999-00 assessment year included approximately 2,500 transfers and over 1,300 new construction projects. The assessor assessed 137,716 acres restricted by California Land Conservation Act contracts, 76,050 acres of timberland production zone properties, and 84 taxable government-owned properties. The real property section, consisting of the chief appraiser, a supervising appraiser, two appraisers, and two assessment clerks, also performed many other tasks, including the evaluation of 13 properties affected by misfortune or calamity.

Change in Ownership

Section 60 requires the assessor to reappraise real property upon a change in ownership. Most often, the assessor learns of a change in ownership when a deed is recorded at the county recorder's office. In Calaveras County, each recorded deed is reviewed to discover changes in ownership that trigger new base year values. In 1999, the assessor's staff processed approximately 2,500 reappraisable transfers.

Documentation

During our current survey, we reviewed the procedures for processing transfers and studied property files for properties that had changed ownership. Overall, the assessor's operations in these areas are efficient and in compliance with acceptable practices. However, a lack of supporting documentation was noted.

RECOMMENDATION 5: Improve appraisal records documentation.

We found two instances in which the date reported for the transfer was different from the date of recordation. In one case, the date of the transfer was reported to be March 11, 1996 and the date of recordation was not until May 8, 1997. In the second case, the time period between the two dates was 21 months. We found no comments on the appraisal records resolving these conflicts.

We found that the base year and percent owned of partial interest transfers were not documented. Additionally, the computer system is reported to be unable to track multiple base years and percents owned. For these reasons, it is important for this information to be clearly noted on the property records so as to ensure an accurate starting point for present and future valuations.

We recommend that the assessor improve documentation on the appraisal records.

Improvement Bonds

In our prior report, we recommended that outstanding improvement bond balances be added to the sale price of a property. Due to legislation enacted on September 23, 1998, section 110(b)

now provides that "[t]here is a rebuttable presumption that the value of improvements financed by the proceeds of an assessment resulting in a lien imposed on the property by a public entity is reflected in the total consideration, exclusive of that lien amount, involved in the transaction. This presumption may be overcome if the assessor establishes by a preponderance of the evidence that all or a portion of the value of those improvements is not reflected in that consideration."

RECOMMENDATION 6: Comply with section 110(b) when valuing properties subject to improvement bonds.

We found that the assessor has not recognized the legislative change and automatically adds the value of improvement bonds to sale prices. Spreadsheets are used to tally sales in the subdivision developments. The spreadsheets show the sale price, the outstanding improvement bond balance, and the value enrolled which is the value of the bonds plus the sale price. However, the assessor has not developed the evidence required to support the addition of bond amounts to the nominal sales price.

We recommend the assessor comply with section 110(b) and refrain from automatically adding improvement bond values to sale prices.

Section 69.5 Exclusions

Section 69.5 provides tax relief for senior citizens by allowing them, to transfer the base year value of their residence to another residence of equal or lesser value in the same county. This benefit, which is a one-time benefit, is also available for severely disabled persons. By ordinance, a county may also accept base year value transfers from other California counties, but Calaveras County has not adopted such an ordinance.

The replacement residence must be purchased or newly constructed within two years of the sale of the original property, and the applicant must be over 55 years of age. In the case of a married couple, only one spouse need be over 55.

RECOMMENDATION 7: Report section 69.5 claims to the BOE quarterly.

We found that the assessor was sending annual, not quarterly, section 69.5 reports to the BOE. Section 69.5(b)(7) requires the assessor to report all purchases or transfers where the property owner has made a claim for transfer of base year value in order to prevent duplicate claims. The assessor must file that report with the BOE every quarter.

We recommend that the assessor report section 69.5 claims to the BOE quarterly.

New Construction

Section 71 requires the assessor to reappraise newly constructed real property upon the date of completion, or on each lien date while construction is in progress. Assessors discover most new construction activity from building permits. Other discovery methods include business property statements, aerial photographs, news reports, and field canvassing. In Calaveras County, there are three permit-issuing agencies.

Building Permits

RECOMMENDATION 8: Obtain building permits from all issuing agencies.

The Calaveras County Environmental Health Department does not forward permits for water wells and underground storage tanks to the assessor. Currently, the assessor only receives permits from the City of Angels and the County of Calaveras building departments.

A permit for a well can be issued without the existence of a structure permit. This may happen when the owner intends to build at a later date and has not applied for a permit to build a structure. This may also occur when the owner of a vacant parcel has a well drilled as an added enticement when selling the parcel. The presence of the well indicates that there is water on the property and is one cost that the buyer will not have to incur after purchase. Owners of agricultural properties will often drill water wells as insurance against reductions in water allocations from irrigation districts and drought. These agricultural wells are often drilled and capped and may remain unused for a number of years before being needed.

To ensure that all qualifying new construction is assessed, the assessor must receive a copy of every approved building permit. Although these permits may be considered less important when compared to the typical permits received by the assessor, they serve notice that some kind of assessable new construction may be taking place. These permits may also signal that other related construction activity is occurring or may soon begin.

We recommend that the assessor obtain permits from all issuing agencies.

Documentation

RECOMMENDATION 9: Record all permit information on the appraisal record.

We found that low-value permits, (i.e., those for a project valued at \$1,000 or less) and permits for non-reappraisal events (e.g., re-roof) are culled and no record of their issuance is recorded on the appraisal record. All construction permit information is useful to an appraiser, whether or not a given permit involves assessable new construction. Appraisers need records of all prior permit information in order to make informed judgments about current condition, quality, appeal, and market value. Building permit information recorded on the appraisal record also provides real property appraisal staff with points of reference when the business property staff relays construction costs for assessable new construction.

We recommend that the assessor record all permit information on the property record.

Supplemental Assessments

Section 75.10 provides that whenever a change in ownership occurs or new construction is completed, the assessor shall appraise the property at its full cash value as of the date of the change in ownership or completion of new construction. This appraised value becomes the new base year value. The difference between this new base year value, and the taxable value on the roll or the taxable value on the roll being prepared, is the amount of the supplemental assessment.

RECOMMENDATION 10: Process supplemental assessments in a timely manner.

We found a backlog of supplemental assessments from 1997. The Megabyte supplemental assessment program is still in the testing stage, and this has contributed to processing delays. Delays in processing supplemental assessments can adversely affect the security of taxes due. For example, the supplemental assessment may not be valid if it is enrolled beyond the dates specified in section 75.11(d). In the case of multiple transfers of the same property, the initial buyer of the property may have left the state, making collection of the supplemental taxes difficult or impossible. Additionally, delays may cause an unnecessary burden on taxpayers for payment of taxes. Taxpayers are entitled to timely notification of assessment.

We recommend the assessor process supplemental assessments in a timely manner.

Declines in Value

Section 51 requires the assessor to enroll the lesser of either a property's factored base year value (FBYV) or its current market value as defined in section 110. When a property's current market value falls below its FBYV on any given lien date, the assessor must enroll the lower value as the taxable value for that property. If, on a subsequent lien date, a property's market value rises above the FBYV, then the assessor must restore the FBYV as the taxable value.

In Calaveras County, there are about 800 parcels (excluding timeshare properties) enrolled at an amount that is less than the property's FBYV (commonly referred to as "decline-in-value assessments").

Annual Valuation

Once a decline-in-value assessment has been enrolled, a property's value must be reviewed annually, as of the lien date, to again determine whether its current market value or its FBYV is lower.

RECOMMENDATION 11: Annually review all decline-in-value assessments.

We found several decline-in-value assessments that have not been reviewed for a number of years. Some have not been reviewed since their initial decline-in-value reassessment. Others have

not been reviewed since 1995. Section 51(e) requires the assessor to annually review any assessment where current market value is enrolled because it is less than the FBV. When current market value exceeds the FBV, the FBV should resume as the taxable value.

We recommend that the assessor annually review all decline-in-value assessments.

Appraisal Unit

Section 51(d) requires that when real property is reviewed for a possible decline in value, the property to be reviewed is the appraisal unit that persons in the marketplace commonly buy and sell as a unit, or that is normally valued separately.

RECOMMENDATION 12: Use the correct appraisal unit when determining a decline in value.

During our examination of properties under review for a decline in value, we found several where an incorrect appraisal unit had been used. These properties were valued without consideration of the entire property's value; rather, the improvements were valued separately from the site.

In one case, the property owner complained that the improvements on the property were in very poor condition. The assessor agreed and adjusted only the improvement value to reflect a salvage condition of \$12,275. However, the assessor stated that the site alone was worth in excess of \$200,000 (40 acres). In another, the owner requested a review citing the poor condition of the improvements. The assessor reduced the improvement value to reflect a salvage value without consideration of the entire property's value. In each case, the property owner requested a review of the property's value due to poor condition of the improvements. Each property's improvement value was reduced without consideration as to the entire property value.

Section 51(d) and Property Tax Rule 461(e) requires that the valuation unit being reviewed for a decline in value be the appraisal unit that persons in the marketplace commonly buy and sell as a unit. In the case of real property with improvements, the appraisal unit is the land and improvements on the property. Since a home site and residence are not typically sold separately, neither the improvements nor the land should be valued as a separate unit.

We recommend that the assessor implement review procedures to ensure that when a property is evaluated for a possible decline in value, the proper appraisal unit is used.

Documentation

RECOMMENDATION 13: Document value estimates on the appraisal record.

We found a number of decline-in-value assessments that lacked documentation on the property record explaining how or why the taxable value was determined as it was. In one case, the assessment was reduced in 1993 and reassessed in 1998, but there no documentation to show

how value was determined for either lien dates. In another case, the assessment was reduced in 1995 from \$12,305 to \$6,000 with no explanation on the records. In another, the assessor initially valued a property at \$70,000 when it sold for \$40,000. When the owner requested a review, the assessor reduced the assessment to \$25,000, all with no comments on the records.

It is standard appraisal practice to list comparables along with any appropriate adjustments as support for the appraiser's opinion of value. This information should be contained on the property record where it can be accessed. Doing so substantiates the value determined, facilitates review, prevents unnecessary delay in answering any questions that may arise, and eliminates any appearance of impropriety.

We recommend that the assessor document value estimates on the appraisal record.

Taxable Possessory Interests

A taxable possessory interest is a private property interest in publicly owned real property. For property tax purposes, the term possessory interest includes either the possession, or the right to possession, of real property when a tax-exempt government agency holds the fee title of that property. In Calaveras County, the assessor annually enrolls about 100 taxable possessory interests.

In our prior survey, we recommended the assessor make improvements to the possessory interest valuation program, including: assessing the possessory interests of the cable television companies in Calaveras County; enrolling the possessory interests at the county fairgrounds; following proper possessory interest appraisal procedures; and providing real property appraisal support for the possessory interest valuation program. We found the assessor has enrolled one cable television company and that an experienced appraiser has been hired to value possessory interests. Possessory interest appraisals are now being performed properly except for one error concerning the income approach.

Income Approach

The objective in the appraisal of a possessory interest is to estimate the value of the rights of possession held by the private individual or party. The estimate of value can be made with appraisal techniques and approaches similar to those used to estimate the value of fee-owned properties, namely the cost, sales comparison, and income approaches.

RECOMMENDATION 14: Capitalize the appropriate income when valuing a taxable possessory interest.

We found that contract rent is being expensed when using the income approach to value the possessory interest by the direct method. In each case, an estimate of economic rent was made, the contract rent was deducted as an expense, and the resulting sum was capitalized into a land value.

Property Tax Rule 25(b) provides that when determining the net income to be capitalized in the income approach, the expenses to deduct do not include the contract rent for the possessory interest. Deducting the contract rent as an expense would result in valuing only the lessee's equity interest. If economic rent equaled contract rent, then the possessory interest would have no value. Property Tax Rule 24 provides that the taxable value of a possessory interest is the sum of the value of all property rights in land and improvements held by the possessor, and that this value is not diminished by any obligation to pay rent.

We recommend that the assessor capitalize the appropriate income when valuing a taxable possessory interest.

Taxable Government-Owned Property

Article XIII, section 3, of the California Constitution exempts from property taxation any property owned by local governments, except as provided in section 11(a). Section 11(a) provides that land, and the improvements thereon, located outside an agency's boundaries, are taxable if the property was subject to taxation at the time of acquisition. Improvements that were constructed to replace improvements that were taxable when acquired are also taxable. These lands and taxable improvements are commonly referred to as Section 11 properties. Calaveras County is assessing a total of 84 Section 11 properties.

Overall, the assessor's program for assessing government-owned properties has improved since our last survey. However, we recommend two modifications to the program.

Discovery

RECOMMENDATION 15: Review the status of all government-owned properties to discover taxable government-owned properties.

As part of our review of government-owned properties, we compared parcel tax-rate area codes against the tax-rate area index to verify whether listed government-owned properties were within specified boundaries. In addition to the 84 Section 11 parcels currently assessed, we found several government-owned properties that were located outside the agencies' boundaries that may also be assessable and taxable.

To determine whether these parcels are assessable, each parcel must be researched to determine whether the parcel was taxable when acquired and to confirm that the parcel is located outside agency boundaries. Once the taxable status is known, the property can be assessed in accordance with the provisions of Section 11.

We recommend that the assessor review the status of all government-owned properties to discover Section 11 properties.

Valuation

Any local government-owned land that is located outside of the agency's boundaries must be valued at the lowest of (1) the 1967 assessed value multiplied by the appropriate Board-announced rate (Phillips Factor), (2) adjusted base year value, or (3) current fair market value.

RECOMMENDATION 16: Correctly determine the restricted value for Section 11 land.

During our review of taxable government-owned properties, we found that the assessor is calculating the Phillips Factor value incorrectly. When calculating the Phillips Factor value for a particular property, the assessor should use the 1967 assessed value of the land and multiply it by the factor that is supplied yearly by the BOE. Instead, the assessor is using the total 1967 value of all taxable parcels owned by a government agency and dividing this total by the total acreage owned to arrive at an average value per acre. This average value per acre is the basis for the application of the Section 11 factor to establish the Phillips Factor value.

This valuation method does not conform to Section 11 requirements. In addition, it will overstate or understate the assessment for individual parcels. These overstated or understated values result in improper assessments.

We recommend that the assessor follow the Section 11 requirements when determining the Phillips Factor value.

California Land Conservation Act Property

Agricultural preserves are established by a city or county pursuant to the California Land Conservation Act (CLCA) of 1965. Property owners in an agricultural preserve may choose to enter into contracts restricting the uses of their lands. Lands under contract are valued for property tax purposes on the basis of agricultural income-producing ability, including compatible use income (e.g., hunting rights and communications facilities). They are assessed at the lowest of the restricted value, the current unrestricted market value, or the FBYV, as defined in article XIII A of the California Constitution. Sections 422 through 430.5 prescribe the statutory framework for assessing lands subject to agricultural preserve contracts. Assessors' Handbook 521, Assessment of Agricultural and Open-Space Properties (AH 521), provides BOE-approved guidance for the appraisal of these properties.

In Calaveras County, there were 137,713 acres under CLCA contract for the 1999-2000 roll, including 9,036 acres in non-renewal status. The number of active contracts was 231, including 22 in non-renewal status. In the course of our survey, we found some areas where the assessor's CLCA program should be improved.

Valuation of Homesites

RECOMMENDATION 17: Value homesites as separate appraisal units.

We found that homesites on CLCA properties are assessed at the same base year value per acre as the total property. Section 428 provides that residences and residential sites are not subject to the same restriction as the CLCA property. Additionally, Assessors' Handbook Section 521, Assessment of Agricultural and Open Space Properties, provides that "[e]ven though it might be highly unlikely (or impossible where local zoning regulations forbid the separate parcelization and/or sale of a homesite on an agricultural property) for the homesite to actually be bought and sold in the marketplace, the homesite must be valued as though it were a separate appraisal unit and traded in that manner." In other words, the homesite must be valued at the market value of a comparable homesite, as of the same time period of the property's original base year.

We recommend that the assessor value each homesite as a separate appraisal unit.

Classification of Water Wells

RECOMMENDATION 18: Enroll water wells as land.

We found the assessor classifies water wells as unrestricted improvements on CLCA properties.

Section 13 of article XIII of the California Constitution specifically provides that land and improvements shall be separately assessed. Property Tax Rules 121 and 122 define land and improvements respectively. Property Tax Rule 124 sets forth examples of both land and improvements, and subdivision (b)(1) thereof lists wells, both oil and water, as land.

The assessor's practice of classifying water wells as unrestricted improvements on CLCA properties is in violation of property tax law and results in an inappropriate assessment of wells upon a change in ownership or new construction. While unrestricted improvements on property under contract are subject to supplemental assessments upon a change in ownership or new construction, restricted land is not. Therefore, if water wells are properly classified as land, they are not subject to supplemental assessments. However, since they are classified as improvements, they are subject to supplemental assessment.

We recommend the assessor properly classify water wells as land.

Questionnaire

RECOMMENDATION 19: Regularly survey all CLCA property owners to solicit data on income, expenses, production, and compatible uses.

The most recent agricultural survey completed by the assessor was in 1997. The questionnaire was mailed to property owners with more than 100 acres of land and to known tenants. It asked for grazing rents but did not solicit compatible use income information, nor did it request

income, expenses, production per unit, or price per unit information. Additionally, we found there is no documentation of data for the factors, values, rates, and numbers used in the assessor's computer valuation programs for land and living improvements.

Section 423(a) sets the fundamental criteria for the determination of the income to be capitalized for the valuation of CLCA properties. It states that the income to be capitalized is the economic net income attributable to the land determined, whenever possible, by the analysis of rents received for similar land with a similar use. The assessor's practice of occasionally collecting limited market data is insufficient to ensure that he has a complete understanding of the market or a sound basis for reasonable value conclusions. Failure to collect current market data can result in the use of income estimates that do not reflect market value, and in incorrect assessments for CLCA properties.

We recommend the assessor send a periodic questionnaire to all CLCA owners to obtain current data on income, expenses, and production and compatible use income information.

Valuation of Trees and Vines

RECOMMENDATION 20: Establish base year values for trees and vines.

We found that base year values have not consistently been established for trees or vines when they become taxable. Section 423(d) provides that the valuation resulting from the capitalization of income as described in section 423 shall not exceed the lesser of either the valuation that would have resulted by calculation under section 110 or the valuation that would have resulted by calculation under section 110.1, as though the property was not subject to an enforceable restriction. By not establishing base year values, the assessor has not ensured that the lesser value was enrolled.

We recommend base year values be established for all trees and vines being assessed.

Valuation of Living Improvements

RECOMMENDATION 21: Automate the living improvement valuation program.

We found a number of mathematical errors in processing the living improvement values for CLCA properties. The use of a computer program to perform the repetitive computations necessary for determining CLCA assessments would reduce time, increase efficiency, and eliminate human errors in mathematical computations. After the basic template and formulas are created, only updated information needs to be entered on an annual basis.

We recommend automating the assessment of living improvements.

Compatible Uses

RECOMMENDATION 22: Include income from compatible uses in the income stream for restricted properties.

We found that the assessor values winery sites on restricted land separately at the lower of the factored base year or current market value. In defining the income to be capitalized when valuing open-space properties subject to enforceable restrictions, section 423(a)(3) provides that revenue shall be the amount of money which the land can be expected to yield to an owner-operator from any use of the land permitted under the terms by which the land is enforceably restricted. Under these provisions, and in accordance with Government Code sections 51238.1, 51238.2, and 51238.3, the assessor must include all compatible use income to be capitalized in determining the value of the restricted properties. Therefore, the assessor should not separately value these winery sites, but should include the income attributable to the winery site in the income stream for the restricted property.

We recommend the assessor value compatible use sites, such as wineries, in the manner specified for restricted properties.

Risk Rates

Section 423(b)(2) provides that the capitalization rate used in valuing CLCA lands shall include a risk component. This risk component is based on the location and characteristics of the land, the crops to be grown on the land and the provisions of any lease or rental agreement to which the land is subject. In addition, the AH 521 provides guidance to assessor in determining the appropriate risk component.

RECOMMENDATION 23: Use the appropriate risk component in the CLCA capitalization rate.

The assessor uses arbitrary risk rates for CLCA properties of 0.25 percent for land and grazing land and 0.5 percent for orchard and vineyard land. There is no documentation to support these rates. In addition, there is no documentation to support the use of a single risk rate based on the use of the property.

The AH 521 recommends a basic risk component of 1 percent as a standard guideline for purposes of developing the capitalization rate used in the valuation of CLCA properties. In addition, the AH 521 notes that the risk component will vary according to the risk associated with each property and provides lists of factors that should be considered when establishing the risk rates for the various property types in the CLCA program.

By using low risk rates of 0.25 and 0.5 percent without supporting documentation, the assessor is overvaluing CLCA properties. We recommend that the assessor follow the guidelines in AH 521 and develop appropriate risk rates for agricultural properties encumbered by CLCA contracts.

Water Company Property

Water company properties assessed on the local tax roll may be owned by municipal district water systems, private water companies regulated or unregulated by the California Public Utilities Commission (CPUC), or mutual water companies. Each type presents different assessment problems.

Discovery

Annual review of the lists provided by the various public agencies that inspect public water systems will greatly contribute to the quality of the assessor's program for assessing water companies. The agencies include, but are not limited to, the county's Department of Environmental Health, the State Department of Health Services' Office of Drinking Water, and the CPUC.

RECOMMENDATION 24: Review the listings of water companies inspected by various public agencies to discover taxable water company properties.

In our 1994 survey report, we recommended the assessor review all water-source properties that are annually inspected by the county's environmental health division to discover assessable properties. We found that the assessor has not implemented our recommendation. Therefore, we repeat our prior recommendation and expand it to also include all other public agencies responsible for testing water systems.

Mutual Water Companies

A mutual water company is a private association created for the purpose of providing water at cost to its stockholders or members. The association can enter into contracts, incur obligations, own property, and issue stock. If not incorporated, it can only perform these functions in the names of its members. Corporations organized for mutual purposes are not subject to regulation by the CPUC unless they deliver water for compensation to persons other than stockholders and members.

RECOMMENDATION 25: Obtain additional information from mutual water companies.

When mutual water shares are appurtenant to the land, the value of the mutual water company is typically reflected in the value of the property served and to which the shares attach. Conversely, when stock in the mutual company is not appurtenant to the land, when the company's water system is not in the company's name, or when customers are served outside the company's service area, the company's land, improvements, and delivery systems must be assessed separately from the served parcels.

We found that none of the mutual water companies' property files contained articles of incorporation, lists of parcels served, or inventories of improvements, distribution systems and personal properties. A mutual water company's articles of incorporation contain much of the

information that must be considered by an appraiser in valuing the company's property. Without this information, it could not be determined whether the water companies' assessed values were correct.

We recommend that the assessor obtain additional information from each mutual water company.

Timber Production Zone Property

Land zoned as a Timberland Production Zone (TPZ), that is not under CLCA contract, is subject to specific assessment procedures that exclude the value of the standing timber. This land is assessed at the lowest of its restricted site value, current market value, or factored base year value. Section 435 specifies that the assessed value of land zoned timber production must be its appropriate site value plus the current market value of any existing compatible nonexclusive uses of the land.

As of the 1999 lien date, there were 321 parcels zoned as TPZ in Calaveras County, totaling 76,010 acres. The total assessed value of these TPZ lands is about \$11.2 million. Overall, we found that the assessor is conscientious in his assessment of TPZ lands. There are, however, two areas that could be improved.

Nonexclusive Use

Section 435 requires assessors to add to the TPZ site value the value, if any, attributable to existing, compatible, nonexclusive uses of the land.

RECOMMENDATION 26: Send periodic questionnaires to timberland owners to discover existing, compatible nonexclusive uses.

We found that permitted exclusive uses such as homesites, cabins, and necessary outbuildings are being assessed. However, there has been no canvassing of TPZ landowners to determine whether existing, compatible, nonexclusive uses exist. Typically, these uses may include hunting, grazing, camping, and mining, among others. The value of these uses must be annually determined and added to the site class values of the timberland.

We recommend the assessor send a questionnaire periodically to timberland owners to discover existing, compatible nonexclusive uses.

Exclusive Use

Previously, we noted that the assessor has assessed a number of exclusive, compatible uses such as structures, improvements, and homesites. The assessor's policy is to describe the uses on the records, enroll their values, and issue appropriate supplemental assessments. Overall, the assessor is conscientious in the assessment of TPZ properties.

RECOMMENDATION 27: Annually, adjust homesites' and improvements' base year values by the inflation factor.

While exclusive, compatible uses such as structures and homesites are properly assessed, the values for such properties have not been indexed by the inflation factor since the 1997-1998 roll. This coincides with the assessor's conversion to the current Megabyte system.

We recommend the assessor review all TPZ properties that have structures, improvements, and homesites to ensure that the base year values of these properties are properly indexed each year.

Leasehold Improvements

Leasehold improvements are structural or fixture improvements made to rented or leased premises, and are typically installed and paid for by the tenant/lessee. Improvements installed by the tenant/lessee can be secured to the real property or assessed to the tenant on the unsecured roll.

Commercial, industrial, and other types of income-producing properties require constant monitoring by the assessor because as tenants change over a period of time they may alter the original improvements in a number of ways. Examples include additions, removals, or possibly both, resulting in a changed use of the property. These changes must, by law, be reviewed and reflected in the property's assessment if they qualify as new construction.

In particular, when real property is reported on the business property statement, the reported cost should be jointly examined by an appraiser and an auditor-appraiser. Determinations must be made as to whether costs are assessable, whether additions are properly classified as structure or fixture improvements, and whether additions are properly enrolled. For these reasons, coordination between the real property and business property staff is very important.

RECOMMENDATION 28: Coordinate the assessment of tenant improvements between the real property and business property divisions.

Because there is little communication between the real property and the business property divisions, we found a variety of discrepancies in the allocation of tenant improvements. With no formal communication system in place for the real property and business property staff to acknowledge receipt of information, or indicate any action taken, there is no assurance that reported items have been assessed or that double assessments are not occurring.

Therefore, we recommend that the assessor improve coordination between the real property and business property divisions in the assessment of tenant improvements.

Timeshares

Timeshare interests are the rights to use real property for an interval of time. Section 998 provides that the taxable value of a timeshare estate shall be determined by finding the real

property value of the interest involved. Such a value must exclude the value of any non-real property items, such as vacation exchange rights, vacation conveniences, services, and club memberships.

In our 1994 survey, we found that timeshare properties had received little attention in prior years. Sale prices were accepted and enrolled as market value but were not indexed for inflation as required by law. The assessor simply "froze" the original base year values as an expedient means of recognizing the weak market for timeshares that existed at that time. We recommended that the assessor review all timeshare assessments, factor base year values for inflation, derive current market value estimates, and make roll corrections as needed.

At the time of our current survey, we found partial compliance with our recommendations. All timeshares had been reviewed for the upcoming year and current market value estimates had been made. However, base year values had not been established for all timeshares.

Section 51 requires that the assessor enroll the lower of a property's base year value, compounded annually for inflation, or the current market value. At the time of our current survey, all timeshare properties were in the process of being reviewed for possible decline in value.

RECOMMENDATION 29: Determine base year values for timeshare properties.

We found that many timeshare property records do not contain base year values, and, in many cases, base year values were unknown. In order to comply with section 51, it is necessary that the FBV be compared to current market value.

We recommend that the assessor determine the base year and the base year value for each timeshare assessment.

ASSESSMENT OF BUSINESS AND PERSONAL PROPERTY

For this portion of our survey report, we reviewed the business property statement program, the audit program, computer valuation, leased equipment, apartment property, service station property, trade level, and the valuation of other taxable personal property including aircraft, vessels, manufactured homes, and animals.

The business property staff of the Calaveras County Assessor's Office processes over 1,400 annual property statements and assesses approximately 85 aircraft and 1,700 boats. One half-time auditor-appraiser and one full-time assessment clerk carry out the functions of business and personal property assessment. The county has contracted with Megabyte, a property tax computer programming company, to upgrade its computer system. The assessor is anticipating improvement in assessment roll processing and estimates the upgrading will be in full operation by fiscal year 2001-2002.

Discovery

Timely discovery of taxable property is one of the basic functions of any county assessor. Due to the frequent changes in the business community, it takes a substantial effort to maintain an accurate, all-inclusive listing of assessable business properties. Therefore, it is essential to have an effective discovery program in place.

RECOMMENDATION 30: Improve the business property discovery program.

We found that the assessor's discovery program is dependent on county and city business licenses, landlord reports, and occasional informal referrals from the real property division. With these limited sources, the existing discovery program is inadequate and needs improvement. Additional methods of discovery include field canvassing and reviewing listings from other tax agencies.

Listings from different tax agencies can include a listing of permittees from the BOE Sales and Use Tax Department, county fictitious business name filings, and leased equipment listings provided by the BOE's Valuation Division through Form 600-B, *Schedule of Leased Equipment*. These listings are readily available to the assessor and can be an invaluable source of information for the discovery program. New business columns in newspapers, business directories, and various trade journals can also provide relevant information.

We recommend the assessor implement a more aggressive discovery program.

Business Property Statement Program

Section 441 requires each person owning taxable personal property in excess of \$100,000 to file an annual business property statement with the assessor. Annual property statements form the

backbone of the business property assessment program. These statements cover a wide variety of property types including commercial, industrial, agricultural, boats, and aircraft.

Property Statements

RECOMMENDATION 31: Use only BOE-prescribed property statements as required by law.

We found that the assessor is using a form entitled Short Form Business Property Statement, which is not a BOE-prescribed form. Section 452 provides that the BOE shall prescribe in detail the content of the property statements, including the specific wording, to be used by all assessors. The BOE is required to notify assessors of the specifications of the form no later than the August 31 prior to the lien date on which the forms are effective. Each assessor is required to incorporate the specifications on the exact form he or she proposes to use and to submit that form to the BOE for approval prior to use. The BOE has a prescribed short form (BOE-571-S) of the business property statement. If the assessor believes it is appropriate to use the short form of the business property statement, he should submit a form to the BOE for approval. To use an unapproved form is in violation of section 452.

We recommend that the assessor use only BOE-prescribed property statements.

Arbitrary Assessments

Section 501 provides that if, after written request by the assessor, any person fails to furnish information required by section 441 and 470, the assessor, based upon information in his possession, shall estimate the value of the property and promptly assess the property. Additionally, section 463 provides for enrollment of a 10 percent penalty of the value of the unreported taxable tangible property if a property statement was required and the person failed to file a timely property statement.

Generally, when a taxpayer does not respond to the mailed statement, an assessor will make an estimated assessment as provided in section 501. After three consecutive years without a response, the business staff will then perform an on-site inspection to determine if an audit is necessary. An assessor may also use that inspection as an opportunity to educate the taxpayer regarding the filing requirements for business property statements.

RECOMMENDATION 32: Audit or visit all taxpayers who fail to file business property statements for three or more consecutive years.

Since our last survey, the assessor has reduced the non-filing workload substantially. However, we discovered several accounts in which arbitrary assessments have been made for four or more consecutive years. There is no indication of any attempts to contact the assessee or to audit the taxpayer's records.

In our preceding survey report, we suggested that after three years of non-filing, the business should be audited or visited. Since this remains a valid issue, we recommend a visit or audit for all taxpayers who have not filed business property statements for three or more consecutive years.

Audit Program

Mandatory Audits

Pursuant to section 469 and Property Tax Rule 192, audits are mandatory for taxpayers reporting business tangible personal property and trade fixtures valued at \$300,000 or more for four consecutive lien dates. In Calaveras County, there are approximately 30 mandatory audit accounts. In our preceding survey report, we recommended the assessor bring the mandatory audit program to current status. We repeat this recommendation.

RECOMMENDATION 33: Bring the mandatory audit program to a current status.

The mandatory audit program verifies the reporting on the largest business property accounts and discovers assessment errors. However, if an audit is not performed timely, it is more difficult to obtain the necessary records for audit purposes. The assessor's mandatory audit program processes an average of eight audits per year. We reviewed five audits between 1996 and the present and noted that one of the five audits has not been completed. While we recognize that since our last survey the assessor has made audit completion a high priority and has retained outside contractors, as well as utilizing the California Counties Cooperative Audit Services Exchange (CCCASE) to complete the task, he is still behind.

We recommend that the assessor bring the mandatory audit program to current status.

Statute of Limitations

Section 532 requires that the assessor enroll an escape assessment discovered during an audit within four years after July 1 of the assessment year during which the property escaped assessment. If the assessor cannot complete an audit within the prescribed time, the assessor may request a waiver of the statute of limitations from the taxpayer to avoid possible loss of revenue.

RECOMMENDATION 34: Obtain a signed waiver of the statute of limitations when an audit will not be completed timely.

The assessor sends a waiver of the statute of limitations to the taxpayer when it is anticipated the audit will not be completed on time. However, we found that 10 out of the 16 backlogged audits did not have signed waivers. By failing to obtain waivers, the assessor may be allowing taxable property to permanently escape assessment. In addition, if the taxpayer was overassessed due to reporting errors, double assessments, etc., refunds cannot be granted on taxes paid more than four

years ago without utilizing the more cumbersome claim for refund procedure provided by section 2635.

In our preceding survey report, we recommended the assessor seek waivers of the statute of limitations in all situations where audits would not be completed on time. We repeat that recommendation here. Any taxpayer or entity refusing to sign a waiver should receive priority when scheduling audits.

Computer Valuation

In order to promote uniformity in appraisal practices and assessed values, and to comply with the requirements of section 401.5, the BOE issued valuation factors for computer equipment. In Letters To Assessors (LTA) 98/61, the BOE provided valuation factors for use in valuing computer equipment for the 1999 and 2000 lien dates. We reviewed the assessor's computer valuation program and found that the proper factors had been used and no modifications were applied. Overall, we found no problems with the assessor's computer valuation program.

Leased Equipment

One of the responsibilities of the business property division is the discovery and assessment of leased equipment. Assesseees are required to report all leased property (taxable property in their possession but belonging to others) on the annual property statement. Details to be provided include the type of property, year of acquisition and manufacture, cost to purchase new, description, lease number or identification number, annual rent, and the lessor's name and mailing address.

We found two areas of the leased equipment valuation program that should be improved.

BOE-600-B

RECOMMENDATION 35: Annually review form BOE-600-B, *Schedule of Leased Equipment*, to discover taxable leased equipment.

We discovered that the assessor does not review the BOE-600-B provided by the BOE to discover assessable leased equipment. The BOE's Valuation Division assesses railroads and specified public utilities in California. Certain equipment, which is used by these assesseees but leased from others, is to be locally assessed. Leased equipment is reported to the BOE on BOE-600-B, and the form is then forwarded to the appropriate county assessor's office for their review. This form is a good discovery tool for leased equipment.

We recommend the assessor annually review BOE-600-B to discover assessable leased equipment.

Cross Reference

RECOMMENDATION 36: Cross-reference leased equipment reportings.

We found that the assessor does not cross-reference lessor and lessee business property statements as a method of picking up leased equipment. Cross-referencing means placing the reportings by the lessee in the files of the referenced lessor. The detailed information can then be used in property statement processing and audit verification. Comparisons of specific information can either provide immediate verification of reporting consistency or point the way to potential problems and errors such as omissions. These cross-referenced reports are also excellent starting points for field audit verification.

We recommend that the assessor cross-reference leased equipment reports.

Apartment Property

RECOMMENDATION 37: Properly classify and assess apartment personal property.

We reviewed six major apartment complexes and found that the personal property was included in the improvement value. This is wrong. It subjects the personal property to supplemental assessments. In addition, the value of the personal property would also be factored (along with the real property) by the inflation index that is applicable only to real property.

We recommend the assessor classify and assess apartment personal property separately from land and improvements.

Service Station Property

There are two criteria that may change the overall fixture-to-personalty ratio of a traditional service station. The first is when the nature of the business has changed. For example, many service stations have converted from auto repair garages to mini-mart operations. The second is that all stations have converted their single wall tanks to double wall tanks in order to meet environmental law requirements. Because the costs of these conversions are substantial, they may affect the ratio between personalty and fixtures.

In addition, when the nature of the business has changed from a garage/fueling station to a mini-mart/fueling station, commercial retail store trend factors instead of commercial garage trend factors should be used.

In assessing service stations, the assessor has to determine the current use of the property. After this determination is made, the appropriate trend factors and fixture ratio can be applied. Overall, the assessor appears to be doing a good job in processing service station business property statements.

Valuation of Other Taxable Personal Property

Aircraft

The assessor appraises approximately 85 aircraft with a total assessed value of \$3,461,250. The *Trade-A-Plane* website is used to obtain the market data for valuing the aircraft. Adjustments are made for variances in aircraft engine and overall condition, as well as variances in aircraft navigational equipment and avionics. Aircraft are tracked through the airport manager's hangar reports, correspondence from other counties' aircraft appraisal units, and Federal Aviation Administration reports.

RECOMMENDATION 38: Use the *Aircraft Bluebook-Price Digest* to value aircraft.

The assessor uses data from the *Trade-A-Plane* Web site instead of the *Aircraft Bluebook-Price Digest*. Section 5364 provides that the BOE shall establish standards and fix guides to be used by the assessor in the assessment of aircraft. Prior to the 1997 lien date, the BOE published aircraft valuation data each year in Assessors' Handbook Section 587, *Aircraft Valuation Data*. The BOE no longer publishes this handbook. On January 8, 1997, in Letter To Assessors No. 97/03, the BOE approved the *Aircraft Bluebook-Price Digest* as the primary guide for valuing aircraft.

We recommend that the assessor use the *Aircraft Bluebook-Price Digest* to value aircraft.

Vessels

In Calaveras County, the primary methods used for the discovery of vessels are reports from the Department of Motor Vehicles, marina reports, and sales and referrals from other counties. For the 1999-2000 tax roll, the total assessed value for approximately 1,700 enrolled vessels was \$12,492,609. Vessels are assessed at their market value on the lien date following transfer. Market value is determined by the taxpayer's reported sale price, the N.A.D.A. boat valuation guide, or depreciated at a fixed percentage. Depreciated vessels are reviewed once every four years.

RECOMMENDATION 39: Modify the depreciation analysis for the vessel valuation program to more accurately determine appropriate trending factors.

We reviewed the analysis done to determine the average decline in value for vessels for the 1999-2000 roll. The sampling of vessels used included a variety of types and ages, comparing the prior year's value to the current N.A.D.A. book value, and extracting an average fixed percent depreciation for all boats. Using a fixed percent to depreciate vessels does not provide a reasonable market estimate for all vessels.

A better approach is to categorize pleasure vessels into two groups (new and used) with four subgroups (sailboat, inboard, outboard, and inboard/outboard) in each group. Using these categories, the percentage of depreciation can be computed, either increasing or decreasing, and

applied to the boats within each category. This approach is much more specific and relevant from an appraisal standpoint, than an average depreciation factor for all vessels.

We recommend the assessor develop a more market-oriented approach for the valuation of vessels.

Animals

Article XIII of the California Constitution provides that all property, unless specifically exempted, is taxable. Several categories of animals are exempt from taxation under the Revenue and Taxation Code. For example, pets are exempt under section 224. Those animals not specifically exempted, however, are taxable.

We found the assessor uses proper procedures in the assessment of animals.

Manufactured Homes

There are approximately 330 manufactured homes located in parks and assessed in Calaveras County. These manufactured homes are classified as personal property but assessed on the secured roll.

In our 1994 survey, we recommended the assessor make certain revisions to the program for valuing and assessing manufactured homes. Two of the three parts of the recommendation were implemented. We repeat the third part of our prior recommendation.

RECOMMENDATION 40: Review manufactured homes for declines in value.

We found that manufactured homes located in rental parks are not annually reviewed. Section 5813 provides that after the base year of a manufactured home is determined, its taxable value for succeeding lien dates is the lesser of its base year value compounded annually by the inflation factor, or its current market value.

It is not unusual for manufactured homes to depreciate in value. Even during periods of economic stability, the values of many manufactured homes decline.

We recommend the assessor review manufactured home values annually.

Section 5803 requires the assessor take into consideration sale prices listed in recognized manufactured home value guides. The *Kelley Blue Book Manufactured Housing Used Value Guide* and the *N.A.D.A. Manufactured Housing Appraisal Guide* (NADA) meet the intent of section 5803. We found the assessor uses the NADA to value manufactured homes, but does not always use the correct edition of this guide.

RECOMMENDATION 41: Ensure that the correct edition of the manufactured home valuation guide is used.

We found several manufactured homes that had been valued upon transfer using an edition of the NADA that did not cover the transfer date. In one instance, the assessor used an April 1994 edition of the NADA to establish a 1998 market value for a manufactured home.

The NADA is issued three times a year and each edition covers a specific time frame. By establishing the base year value using an inappropriate edition of the NADA, an incorrect value is established for the valuation date.

We recommend the assessor use the edition of the valuation guide that covers the date on which the sale or transfer occurred.

APPENDICES

A. County Property Tax Division Survey Group

Calaveras County Assessment Practices Survey

Chief, County Property Tax Division:

Charles Knudsen

Survey Program Director:

Gene Palmer

Principal Property Appraiser

Survey Team Supervisor:

Arnold Fong

Supervising Property Appraiser

Survey Team Leaders:

Lois Adams

Senior Specialist Property Appraiser

Sally Boeck

Senior Specialist Property Appraiser

Survey Team:

Glenn Danley

Associate Property Appraiser

Zella Cunningham

Associate Property Appraiser

Raymond Tsang

Associate Property Auditor Appraiser

Julius Trujillo

Tax Technician II

B. Relevant Statutes and Regulations

Government Code

15640. Survey by board of county assessment procedures.

- (a) The State Board of Equalization shall make surveys in each county and city and county to determine the adequacy of the procedures and practices employed by the county assessor in the valuation of property for the purposes of taxation and in the performance generally of the duties enjoined upon him or her.
- (b) The surveys shall include a review of the practices of the assessor with respect to uniformity of treatment of all classes of property to ensure that all classes are treated equitably, and that no class receives a systematic overvaluation or undervaluation as compared to other classes of property in the county or city and county.
- (c) The surveys may include a sampling of assessments from the local assessment rolls. Any sampling conducted pursuant to subdivision (b) of Section 15643 shall be sufficient in size and dispersion to insure an adequate representation therein of the several classes of property throughout the county.
- (d) In addition, the board may periodically conduct statewide surveys limited in scope to specific topics, issues, or problems requiring immediate attention.
- (e) The board's duly authorized representatives shall, for purposes of these surveys, have access to, and may make copies of, all records, public or otherwise, maintained in the office of any county assessor.
- (f) The board shall develop procedures to carry out its duties under this section after consultation with the California Assessors' Association. The board shall also provide a right to each county assessor to appeal to the board appraisals made within his or her county where differences have not been resolved before completion of a field review and shall adopt procedures to implement the appeal process.

15641. Audit of Records; Appraisal Data Not Public.

In order to verify the information furnished to the assessor of the county, the board may audit the original books of account, wherever located; of any person owning, claiming, possessing or controlling property included in a survey conducted pursuant to this chapter when the property is of a type for which accounting records are useful sources of appraisal data.

No appraisal data relating to individual properties obtained for the purposes of any survey under this chapter shall be made public, and no state or local officer or employee thereof gaining knowledge thereof in any action taken under this chapter shall make any disclosure with respect thereto except as that may be required for the purposes of this chapter. Except as specifically provided herein, any appraisal data may be disclosed by the board to any assessor, or by the board or the assessor to the assessee of the property to which the data relate.

The board shall permit an assessee of property to inspect, at the appropriate office of the board, any information and records relating to an appraisal of his or her property, including "market data" as defined in Section 408. However, no information or records, other than "market data," which relate to the property or business affairs of a person other than the assessee shall be disclosed.

Nothing in this section shall be construed as preventing examination of that data by law enforcement agencies, grand juries, boards of supervisors, or their duly authorized agents, employees, or representatives conducting an investigation of an assessor's office pursuant to Section 25303, and

other duly authorized legislative or administrative bodies of the state pursuant to their authorization to examine that data.

15642. Research by board employees.

The board shall send members of its staff to the several counties and cities and counties of the state for the purpose of conducting that research it deems essential for the completion of a survey report pursuant to Section 15640 with respect to each county and city and county. The survey report shall show the volume of assessing work to be done as measured by the various types of property to be assessed and the number of individual assessments to be made, the responsibilities devolving upon the county assessor, and the extent to which assessment practices are consistent with or differ from state law and regulations. The report may also show the county assessor's requirements for maps, records, and other equipment and supplies essential to the adequate performance of his or her duties, the number and classification of personnel needed by him or her for the adequate conduct of his or her office, and the fiscal outlay required to secure for that office sufficient funds to ensure the proper performance of its duties.

15643. When surveys to be made.

- (a) The board shall proceed with the surveys of the assessment procedures and practices in the several counties and cities and counties as rapidly as feasible, and shall repeat or supplement each survey at least once in five years.
- (b) The surveys of the 10 largest counties and cities and counties shall include a sampling of assessments on the local assessment rolls as described in Section 15640. In addition, the board shall each year, in accordance with procedures established by the board by regulation, select at random at least three of the remaining counties or cities and counties, and conduct a sample of assessments on the local assessment roll in those counties. If the board finds that a county or city and county has "significant assessment problems," as provided in Section 75.60 of the Revenue and Taxation Code, a sample of assessments will be conducted in that county or city and county in lieu of a county or city and county selected at random. The 10 largest counties and cities and counties shall be determined based upon the total value of locally assessed property located in the counties and cities and counties on the lien date that falls within the calendar year of 1995 and every fifth calendar year thereafter.
- (c) The statewide surveys which are limited in scope to specific topics, issues, or problems may be conducted whenever the board determines that a need exists to conduct a survey.
- (d) When requested by the legislative body or the assessor of any county or city and county to perform a survey not otherwise scheduled, the board may enter into a contract with the requesting local agency to conduct that survey. The contract may provide for a board sampling of assessments on the local roll. The amount of the contracts shall not be less than the cost to the board, and shall be subject to regulations approved by the Director of General Services.

15644. Recommendations by board.

The surveys shall incorporate reviews of existing assessment procedures and practices as well as recommendations for their improvement in conformity with the information developed in the surveys as to what is required to afford the most efficient assessment of property for tax purposes in the counties or cities and counties concerned.

15645. Survey report; final survey report; assessor's report.

- (a) Upon completion of a survey of the procedures and practices of a county assessor, the board shall prepare a written survey report setting forth its findings and recommendations and transmit a copy to the assessor. In addition the board may file with the assessor a confidential report containing matters relating to personnel. Before preparing its written survey report, the board shall meet with the assessor to discuss and confer on those matters which may be included in the written survey report.
- (b) Within 30 days after receiving a copy of the survey report, the assessor may file with the board a written response to the findings and recommendations in the survey report. The board may, for good cause, extend the period for filing the response.
- (c) The survey report, together with the assessor's response, if any, and the board's comments, if any, shall constitute the final survey report. The final survey report shall be issued by the board within two years after the date the board began the survey. Within a year after receiving a copy of the final survey report, and annually thereafter, no later than the date on which the initial report was issued by the board and until all issues are resolved, the assessor shall file with the board of supervisors a report, indicating the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations of the survey report, with copies of that response being sent to the Governor, the Attorney General, the State Board of Equalization, the Senate and Assembly and to the grand juries and assessment appeals boards of the counties to which they relate.

15646. Copies of final survey reports to be filed with local officials.

Copies of final survey reports shall be filed with the Governor, Attorney General, and with the assessors, the boards of supervisors, the grand juries and assessment appeals boards of the counties to which they relate, and to other assessors of the counties unless one of these assessors notifies the State Board of Equalization to the contrary and, on the opening day of each regular session, with the Senate and Assembly.

Revenue and Taxation Code**75.60. Allocation for administration.**

- (a) Notwithstanding any other provision of law, the board of supervisors of an eligible county or city and county, upon the adoption of a method identifying the actual administrative costs associated with the supplemental assessment roll, may direct the county auditor to allocate to the county or city and county, prior to the allocation of property tax revenues pursuant to Chapter 6(commencing with Section 95) and prior to the allocation made pursuant to Section 75.70, an amount equal to the actual administrative costs, but not to exceed 5 percent of the revenues that have been collected on or after January 1, 1987, due to the assessments under this chapter. Those revenues shall be used solely for the purpose of administration of this chapter, regardless of the date those costs are incurred.
- (b) For purposes of this section:
- (1) "Actual administrative costs" includes only those direct costs for administration, data processing, collection, and appeal that are incurred by county auditors, assessors, and tax collectors. "Actual administrative costs" also includes those indirect costs for administration, data processing, collections, and appeal that are incurred by county auditors, assessors, and tax collectors and are allowed by state and federal audit standards pursuant to the A-87 Cost Allocation Program.
 - (2) "Eligible county or city and county" means a county or city and county that has been certified by the State Board of Equalization as an eligible county or city and county. The State Board of Equalization shall certify a county or city and county as an eligible county or city and county only if both of the following are determined to exist:
 - (A) The average assessment level in the county or city and county is at least 95 percent of the assessment level required by statute, as determined by the board's most recent survey of that county or city and county performed pursuant to Section 15640 of the Government Code.
 - (B) For any survey of a county assessment roll for the 1996-97 fiscal year and each fiscal year thereafter, the sum of the absolute values of the differences from the statutorily required assessment level described in subparagraph (A) does not exceed 7.5 percent of the total amount of the county's or city and county's statutorily required assessed value, as determined pursuant to the board's survey described in subparagraph (A).
 - (3) Each certification of a county or city and county shall be valid only until the next survey made by the board. If a county or city and county has been certified following a survey that includes a sampling of assessments, the board may continue to certify that county or city and county following a survey that does not include sampling if the board finds in the survey conducted without sampling that there are no significant assessment problems in the county or city and county. The board shall, by regulation, define "significant assessment problems" for purposes of this section, and that definition shall include objective standards to measure performance. If the board finds in the survey conducted without sampling that significant assessment problems exist, the board shall conduct a sampling of assessments in that county or city and county to determine if it is an eligible county or city and county. If a county or city and county is not certified by the board, it may request a new survey in advance of the regularly scheduled survey, provided that it agrees to pay for the cost of the survey.

Title 18, California Code of Regulations**Rule 370. Random selection of counties for representative sampling.**

- (a) **SURVEY CYCLE.** The board shall select at random at least three counties from among all except the 10 largest counties and cities and counties for a representative sampling of assessments in accordance with the procedures contained herein. Counties eligible for random selection will be distributed as equally as possible in a five-year rotation commencing with the local assessment roll for the 1997–98 fiscal year.
- (b) **RANDOM SELECTION FOR ASSESSMENT SAMPLING.** The three counties selected at random will be drawn from the group of counties scheduled in that year for surveys of assessment practices. The scheduled counties will be ranked according to the size of their local assessment rolls for the year prior to the sampling.
 - (1) If no county has been selected for an assessment sampling on the basis of significant assessment problems as provided in subdivision (c), the counties eligible in that year for random selection will be divided into three groups (small, medium, and large), such that each county has an equal chance of being selected. One county will be selected at random by the board from each of these groups. The board may randomly select an additional county or counties to be included in any survey cycle year. The selection will be done by lot, with a representative of the California Assessors' Association witnessing the selection process.
 - (2) If one or more counties are scheduled for an assessment sampling in that year because they were found to have significant assessment problems, the counties eligible for random selection will be divided into the same number of groups as there are counties to be randomly selected, such that each county has an equal chance of being selected. For example, if one county is to be sampled because it was found to have significant assessment problems, only two counties will then be randomly selected and the pool of eligible counties will be divided into two groups. If two counties are to be sampled because they were found to have significant assessment problems, only one county will be randomly selected and all counties eligible in that year for random selection will be pooled into one group.
 - (3) Once random selection has been made, neither the counties selected for an assessment sampling nor the remaining counties in the group for that fiscal year shall again become eligible for random selection until the next fiscal year in which such counties are scheduled for an assessment practices survey, as determined by the five-year rotation. At that time, both the counties selected and the remaining counties in that group shall again be eligible for random selection.
- (c) **ASSESSMENT SAMPLING OF COUNTIES WITH SIGNIFICANT ASSESSMENT PROBLEMS.** If the board finds during the course of an assessment practices survey that a county has significant assessment problems as defined in Rule 371, the board shall conduct a sampling of assessments in that county in lieu of conducting a sampling in a county selected at random.
- (d) **ADDITIONAL SURVEYS.** This regulation shall not be construed to prohibit the Board from conducting additional surveys, samples, or other investigations of any county assessor's office.

Rule 371. Significant assessment problems.

- (a) For purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, "significant assessment problems" means procedure(s) in one or more areas of an assessor's assessment operation, which alone or in combination, have been found by the Board to indicate a reasonable probability that either:
 - (1) the average assessment level in the county is less than 95 percent of the assessment level required by statute; or
 - (2) the sum of all the differences between the board's appraisals and the assessor's values (without regard to whether the differences are underassessments or overassessments), expanded statistically over the assessor's entire roll, exceeds 7.5 percent of the assessment level required by statute.
- (b) For purposes of this regulation, "areas of an assessor's assessment operation" means, but is not limited to, an assessor's programs for:
 - (1) Uniformity of treatment for all classes of property.
 - (2) Discovering and assessing newly constructed property.
 - (3) Discovering and assessing real property that has undergone a change in ownership.
 - (4) Conducting mandatory audits in accordance with Revenue and Taxation Code Section 469 and Property Tax Rule 192.
 - (5) Assessing open-space land subject to enforceable restriction, in accordance with Revenue and Taxation Code Sections 421 et. seq.
 - (6) Discovering and assessing taxable possessory interests in accordance with Revenue and Taxation Code Sections 107 et. seq.
 - (7) Discovering and assessing mineral-producing properties in accordance with Property Tax Rule 469.
 - (8) Discovering and assessing property that has suffered a decline in value.
 - (9) Reviewing, adjusting, and, if appropriate, defending assessments for which taxpayers have filed applications for reduction with the local assessment appeals board.
- (c) A finding of "significant assessment problems," as defined in this regulation, would be limited to the purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, and shall not be construed as a generalized conclusion about an assessor's practices.

ASSESSOR'S RESPONSE TO BOE'S FINDINGS

Section 15645 of the Government Code provides that the assessor may file with the BOE a response to the findings and recommendation in the survey report. The survey report, the assessor's response, and the BOE's comments on the assessor's response, if any, constitute the final survey report.

The Calaveras County Assessor's response begins on the next page. The CPTD staff has no comments on the response



GRANT W. METZGER, JR.

ASSESSOR

CALAVERAS COUNTY GOVERNMENT CENTER
891 MOUNTAIN RANCH RD.
SAN ANDREAS, CALIFORNIA 95249-9709
(209) 754-6356
FAX (209) 754-6739

June 28, 2001

RECEIVED

Mr. Charles Knudsen, Chief
County Property Tax Division
State Board of Equalization
P. O. Box 942879
Sacramento, CA 94279-0062

JUN 29 2001

County Property Tax Division
State Board of Equalization

RECEIVED

JUN 29 2001

Policy, Planning & Standards Div.
State Board of Equalization

Dear Mr. Knudsen:

In accordance with Government Code Section 15645, my response to the findings and recommendations of the State Board of Equalization's Assessment Practices Survey of Calaveras County is enclosed. Please incorporate it into your final Assessment Practices Survey Report. I appreciate the professionalism shown by Arnold Fong and the State Board staff during this process. They made every effort to avoid being disruptive to our daily task of producing the assessment rolls.

I am pleased with the acknowledgment in your introduction that this is Calaveras County's first survey prepared under your new survey format. It is important for the reader to note that under the new system, single recommendations have been expanded into numerous smaller recommendations and suggestions have now been included as recommendations. This explains why it appears that the number of recommendations has increased from previous surveys.

I am satisfied that the overall tenor of the Survey Report reflects the high quality of assessment practices in Calaveras County and supports our continued efforts to provide our citizens with the best possible services. I appreciate your verbal recognition that we are inadequately staffed.

Although I agree with many of your recommendations, some are impractical to implement. You will note in our response that many of your recommendations have already been implemented and others will be put in place when time and staffing allows. Funding from AB 818 and AB 719 has been instrumental in assisting us in this regard.

I wish to acknowledge and thank the employees of the Calaveras County Assessor's Office for their dedication and hard work in providing outstanding service to the citizens of our County.

Sincerely,

Grant W. Metzger, Jr.
Calaveras County Assessor

Enclosure

- RECOMMENDATION 1:**
RESPONSE: **Develop a formal disaster recovery plan for the computer system**
We agree that a formal disaster recovery plan is needed. We expect the proposed Assessment Cadastral Analyst and standards Analyst to develop the appropriate procedures for in-house data. Our Tech Services Department is developing off-campus storage for computer backup disks.
- RECOMMENDATION 2:**
RESPONSE: **Notify the auditor-controller to apply the section 506 interest**
Notification is now being provided to the Auditor's office.
- RECOMMENDATION 3:**
RESPONSE: **Cite the proper Revenue and Taxation Code section when processing escape assessments**
Due to the inexperience with the Megabyte Property Tax System, we were unaware that we had the capability to use more specific codes. The codes could be mentioned in the notes section for the Auditor's reference. However, we are now able to use the specific code and section.
- RECOMMENDATION 4:**
RESPONSE: **Enroll escaped assessments in the manner prescribed by section 533**
We agree. We were not familiar with the new property tax system and did not realize we had the ability to enter the appropriate information. It is now being entered on the roll.
- RECOMMENDATION 5:**
RESPONSE: **Improve appraisal records documentation**
We have requested the addition of a Standards Analyst position in order to standardize procedures and establish controls and systems for the proper performance of our task. This recommendation falls under the jurisdiction of the proposed Standards Analyst. In addition, we have developed a partial interest transfer-tracking sheet.
- RECOMMENDATION 6:**
RESPONSE: **Comply with section 110(b) when valuing properties subject to improvement bonds**
We believe that we do comply with Section 110(b) when valuing properties subject to improvement bonds. Our initial review of matched pair sales indicates that our procedures are correct. We expect that the Standards Analyst will develop procedures and a training program to ensure our continued compliance with Section 110(b).
- RECOMMENDATION 7:**
RESPONSE: **Report section 69.5 claims to the BOE quarterly**
Due to the low volume of claims, usually between two and four annually, we would report once a year. We are now reporting quarterly.
- RECOMMENDATION 8:**
RESPONSE: **Obtain building permits from all issuing agencies**
We have requested the addition of a Standards Analyst position in order to improve our procedures. This recommendation requires interdepartmental coordination that is included in the job description for the Standards Analyst. We have contacted the Environmental Health Department and requested that

they copy us with all water well and underground tank permits.

**RECOMMENDATION 9:
RESPONSE:**

Record all permit information on the appraisal record

We have requested the addition of a Standards Analyst position in order to improve our procedures. This recommendation will probably require revisions to our forms, a Standards responsibility. Meanwhile, we are recording all permits in our MPTS. Our appraisers have access to those comments when doing an appraisal.

**RECOMMENDATION 10:
RESPONSE:**

Process supplemental assessments in a timely manner

We agree. Due to apportionment problems and proration problems as a result of our Megabyte conversion, we fell behind in processing our supplemental assessments. However, corrections have been made and notices are being processed and mailed on a weekly basis and Supplemental bills are being processed monthly.

**RECOMMENDATION 11:
RESPONSE:**

Annually review all decline-in-value assessments

We began reviewing Prop 8 properties during 2000 for the 00/01 tax roll. We are currently in the process of reviewing Prop 8 properties for the 2001/2002 tax roll. We have completed a majority of the commercial properties and ag properties, all timeshares, and have completed approximately 30% of all residential properties. Staffing levels are not adequate to complete this task.

**RECOMMENDATION 12:
RESPONSE:**

Use the correct appraisal unit when determining a decline in value

In November of 2000 a prop 8 workshop was held and attended by all members of the appraisal staff. Complete instructions were given on the proper methodology and procedures for valuing Prop 8 properties. Currently, the proper appraisal units are being employed.

**RECOMMENDATION 13:
RESPONSE:**

Document value estimates on the appraisal record

Documentation has always been required in our appraisal files. Lack of staffing may have caused an occasional file to slip by a supervisor. Complete documentation is now being placed in a master file for Prop 8 valuation purposes with a reference to the master file for each appraisal record.

**RECOMMENDATION 14:
RESPONSE:**

Capitalize the appropriate income when valuing a taxable possessory interest

The SBE recommended that we capitalize the appropriate income when valuing a taxable possessory interest. The footnotes refer to older PI's that were valued incorrectly. Beginning last year (2000 roll), proper valuation procedures were used for all new possessory interest assessments. We are currently reviewing older PI's to determine if the assessed value was incorrectly calculated.

- RECOMMENDATION 15:** Review the status of all government-owned properties to discover taxable government-owned properties
- RESPONSE:** A recent survey was completed within the assessor's office of all government-owned properties within the county jurisdiction. Our findings indicated that all properties in the Section 11 program are correct.
- RECOMMENDATION 16:** Correctly determine the restricted value for Section 11 land
- RESPONSE:** Time and budget permitting, a new spreadsheet-analysis form will be created to properly value Section 11 Properties as per SBOE guidelines.
- RECOMMENDATION 17:** Value homesites as separate appraisal units
- RESPONSE:** This is a practice that has been done correctly for years. A recent spreadsheet erroneously left out the factoring. Beginning with the 00/01 Tax Roll, homesite values were being valued separately for assessment purposes. As time permits, all of the Agricultural Preserves properties will be re-evaluated for the correct assessment of homesites.
- RECOMMENDATION 18:** Enroll water wells as land
- RESPONSE:** Effective for the 00/01 Tax Roll, wells are being included in the land valuation, including CLCA properties.
- RECOMMENDATION 19:** Regularly survey all CLCA property owners to solicit data on income, expense, production and compatible uses
- RESPONSE:** An Agricultural Survey was mailed out in August 2000. The returned surveys were recorded and analyzed. An addition was the alternative use question. Upgrades to the Survey Questionnaire include income and expense reporting.
- RECOMMENDATION 20:** Establish base year values for trees and vines
- RESPONSE:** Base year values have consistently been established on all living improvements for years. The problem with our spreadsheet is that it doesn't show the comparison between section 110 and section 110.1 values clearly. The newly installed Megabyte Property Taxation System now properly, and automatically, enrolls the correct values for CLCA properties. The correct base year and factored base year values are being input into the new tax system. For the 01/02 Tax Roll, all proper FBV's should be enrolled.
- RECOMMENDATION 21:** Automate the living improvement valuation program
- RESPONSE:** Living improvement valuation has been totally automated for years. See above.
- RECOMMENDATION 22:** Include income from compatible uses in the income stream for restricted properties
- RESPONSE:** Beginning in the 01/02 Tax Year, all income from compatible uses will be considered when valuing CLCA properties. The footnote property (APN 034-003-048) is part of an existing winery. Compatible use income

associated with the winery will be calculated and added to the roll for the 01/02 Tax Roll.

- RECOMMENDATION 23:** **Use appropriate risk component in the CLCA capitalization rate.**
RESPONSE: The appropriate risk rate has been used in most cases and the assessor is reviewing those cases where it was found to be inappropriate.
- RECOMMENDATION 24:** **Review the listings of water companies inspected by various public agencies to discover taxable water company properties**
RESPONSE: We have requested the addition of a Standards Analyst in order to establish systems to properly assess taxable property. We expect that position to discover and/or develop the procedures for taxable water company properties. We have requested a listing of water companies from the Environmental Health Department.
- RECOMMENDATION 25:** **Obtain additional information from mutual water companies**
RESPONSE: Once the mutual water companies have been identified, we will be able to obtain additional information to aid us in making a proper assessment.
- RECOMMENDATION 26:** **Send periodic questionnaires to timberland owners to discover existing, compatible nonexclusive uses**
RESPONSE: We will be developing a TPZ questionnaire similar in content as the CLCA questionnaire. Homesite values will be enrolled for the 01/02 Tax Roll.
- RECOMMENDATION 27:** **Annually, adjust homesites' and improvements' base year values by the inflation factor**
RESPONSE: We will be developing a TPZ questionnaire. Homesite values will be enrolled for the 01/02 Tax Roll.
- RECOMMENDATION 28:** **Coordinate the assessment of tenant improvements between the real and business property divisions**
RESPONSE: A communication sheet has been created and is currently in use. Both the real property appraiser and the auditor/appraiser use this correspondence sheet.
- RECOMMENDATION 29:** **Determine base year values for timeshare properties**
RESPONSE: Base year values of approximately one-third of the 1,581 timeshares have been identified. The balance will be identified as time and staff permit. We acknowledge the need to identify the timeshare base year values.
- RECOMMENDATION 30:** **Improve the business property discovery program**
RESPONSE: We agree that the discovery program would be improved by using field canvassing and listings provided by other tax agencies. We currently use county fictitious business name filings, leased equipment listings from both Form 600-B's and Form 571-L's. We also have used the local newspapers

to discover new businesses. With only a half-time auditor-appraiser, field canvassing has not been possible.

RECOMMENDATION 31:
RESPONSE:

Use only BOE-prescribed property statements
We agree with this recommendation. We have used only BOE-prescribed forms for the 2001 lien date.

RECOMMENDATION 32:
RESPONSE:

Audit or visit all taxpayers who fail to file business property statements for three or more consecutive years
We agree with this recommendation. We have been reviewing those accounts and have reduced the number of non-filers. We will attempt, as time and staff allows, to audit and/or visit all taxpayers that have not filed business property statements for three or more years.

RECOMMENDATION 33:
RESPONSE:

Bring the mandatory audit program to a current status
We agree with the recommendation to bring the mandatory audit program to a current status. We are continuing to make mandatory audit completion a priority. We have used outside auditors and the California Counties Cooperative Audit Services Exchange program. With only a half-time auditor-appraiser it has been difficult to bring this program up to date. Currently, we are using AB719 funds to have contract auditing completed.

RECOMMENDATION 34:
RESPONSE:

Obtain a signed waiver of the statute of limitations when an audit will not be completed timely
We currently send out waivers of the statute of limitations to taxpayers when we cannot complete a timely mandatory audit. Taxpayers are not required to sign these waivers however. As part of the process to bring the mandatory audit program to a current status, we will continue to place priority on those audits for taxpayers refusing to sign the waiver.

RECOMMENDATION 35:
RESPONSE:

Annually review the form BOE-600-B, *Schedule of Leased Equipment*, provided by the BOE
We do review the Form BOE-600-B, *Schedule of Leased Equipment*. These listings, when received, have always been reviewed to ensure that leased equipment is assessed.

RECOMMENDATION 36:
RESPONSE:

Cross-reference leased equipment reportings
We agree that cross-referencing should be used to pick up leased equipment and to discover new taxpayers. We review all leased equipment reportings. We currently cross-reference by making notes, on the lessor reportings, of lessee account names and numbers. We also note any lessees not currently on the roll and mail 571-L's. Similar notes are made on lessee accounts with reported leased equipment to determine whether the equipment is already assessed to the lessor. We do not agree with the recommendation of placing the lessee reportings in the files of the referenced lessor. This would be a violation of the lessee's confidentiality and would also require use of

valuable resources. Employee time would be required to copy lessee information, refile lessee accounts and then file the information in the lessor account. We cannot justify the time and resources to do this and we would not have the space to accommodate the extra paperwork. We feel our method of cross-referencing is adequate and more efficient.

**RECOMMENDATION 37:
RESPONSE:**

Properly classify and assess apartment personal property

We agree that the assessor should classify and assess apartment personal property separately from land and improvements. We have sent Form 571-R's, Apartment House Property Statements, to the accounts identified by the SBE. Personal property will be reported and assessed separately. Corrections will be made to the 2001 roll the correctly classify and assess the personal property.

**RECOMMENDATION 38:
RESPONSE:**

Use the *Aircraft Bluebook Price Digest* to value aircraft

We agree with the recommendation to use the *Aircraft Bluebook Price Digest* and have purchased the guide for use in valuation of aircraft for the 2001-2002 roll.

**RECOMMENDATION 39:
RESPONSE:**

Modify the depreciation analysis for the vessel valuation program to more accurately determine appropriate trending factors

We agree that the valuation of vessels needs to be refined. With our new system we will be able to implement a more market-oriented approach and we will continue to work on improving this area.

**RECOMMENDATION 40:
RESPONSE:**

Review manufactured homes for declines in value

All manufactured homes are now valued using the automated form supplied by NADA. A quarterly disc is received and prior quarters are stored and filed for reference and use. A new spreadsheet was completed for the 2001-2002 tax roll, which valued all the mobile homes within a park. This spreadsheet with proper formulas will be utilized in subsequent years.

**RECOMMENDATION 41:
RESPONSE:**

Ensure that the correct edition of the manufactured home valuation guide is used

See above response.